



Mogale City

Local Municipality

ANNEXURE 6

LONG-TERM FINANCIAL PLANNING POLICY

2020/2021

March 2020

TABLE OF CONTENTS

1. INTRODUCTION.....	3
2. LEGISLATIVE MANDATE	3
3. KEY COMPONENTS OF LONG-TERM FINANCIAL PLANNING.....	3
4. THE MACRO-ECONOMIC FRAMEWORK.....	4
5. REVENUE AND EXPENDITURE FORECASTING	5
6. GENERALLY RECOGNIZED ACCOUNTING PRACTICE (GRAP).....	5
7. ASSET MANAGEMENT (INFRASTRUCTURE INVESTMENT AND FUNDING).....	6
8. MSCOA COMPLIANCE	6
9. COMMENCEMENT AND APPROVAL	7

1. INTRODUCTION

The Long-Term Financial Planning Policy, herein after referred to as this/the Policy, is amended from the Budget Management Policy and has been effective as of 1 July 2014. This Policy was developed to comply with the Municipal Finance Management Act (MFMA), 2003, (Act 56 of 2003) in order:

- a. To establish, maintain and approve a policy framework by which Executive Managers, Managers and Specialists can plan ahead to ensure effective financial management;
- b. To assist Executive Mayor, Mayoral Committee ,Accounting Officer , Executive Managers ,Managers and Officials in aligning the financial planning with the Integrated Development Plan.

2. LEGISLATIVE MANDATE

This Policy was drafted in accordance with, and will be accountable to, the following legislation:

- The Constitution of the Republic of South Africa, Act 108 of 1996
- The Municipal Finance Management Act, Act 56 of 2003

3. KEY COMPONENTS OF LONG-TERM FINANCIAL PLANNING

1. Mogale City Local Municipality makes use of both the IDP and the Strategic Plan to inform the Medium-term Revenue and Expenditure Framework compilation. The plans are updated and remodeled taking into consideration the following:
 - a. Economic changes;
 - b. Guidelines from other National KPA's;
 - c. Strategic and policy direction of the Municipality to ensure sustainability; and
 - d. Goal orientated service delivery.
2. The financial strategy recognizes that the development and implementation of the various financial planning reforms (e.g. MFMA, GRAP and National Treasury Financial Reforms) have fundamentally changed the approach adopted in terms of financial planning. The need for an integrated approach when appropriating resources has become essential for sustainable outcomes especially taking into consideration the size and diverse nature of challenges of the Municipality.
3. Medium-term budgeting is based on a set of core principles that relate to:

- a. Guidelines
 - b. Fiscal policy and budget framework
 - c. Policy priorities
 - d. Political oversight of the budget process
 - e. Budgeting for improved service delivery
4. The adoption of a long-term financial strategy is based on various factors and financial variables which ultimately influence the budget to be adopted by Council.
5. The following are to be considered before embarking on the formulation of the long term financial strategy:
 - a. The first is the economic situation in the country (macro- economic framework);
 - b. The second is the balance between existing revenues and demands for expenditure under existing legislation and policy (revenue and expenditure estimates);
 - c. The third are the policies and programs the local government aims to pursue through budget expenditures in line with the IDP and SDBIP (local government policies and priorities);
 - d. The effect of Generally Recognized Accounting Practice (GRAP); and
 - e. Asset management principles.

4. THE MACRO-ECONOMIC FRAMEWORK

1. A macro- economic forecast has to be evaluated based on the following components:
 - a. An analysis of the economy;
 - b. Demographic trends related to socio-economic factors;
 - c. Funds supply and other monetary considerations
 - d. Government influences on the economy;
 - e. Inflation, both general and by sector;
 - f. Savings and investment trends;
 - g. Government indebtedness; and
 - h. Major events influencing the economy.
2. The macro-economic framework is guided by the following principles:
 - a. The early and careful attention to economic trends as an important foundation for budget formulation. The flexibility in design and management of a budget formulation process does not remain static.
 - b. Each year, it must analyze how economic trends will affect revenues and the policy goals of the local government.

- c. An understanding of the types and extent of likely revenues is needed to guide preliminary decisions about the Municipality's spending and about income generated.
- d. Demographic trends related to socio-economic issues (poverty, employment, inequalities, education) have a direct and significant effect on any local government revenues and expenditures.
- e. Develop sound budget proposal based on good understanding of both the Municipality's directions and legal requirements.

5. REVENUE AND EXPENDITURE FORECASTING

Revenue and expenditure forecasting are major preliminary area of importance. The following guiding principles are worth noting and understanding in this regard:

- a. Revenue and expenditure forecast being the start of the long-term financial strategy and the budget formulation process.
- b. More focused participation.
- c. The need for accurate revenue forecasts applies to all revenue sources, including funds obtained through operating activities, grants and donations and special funds.
- d. Revenue estimates are the basis for evaluating expenditure and rate tax policies and for allocating funds for budget formulation;
- e. Important economic variables affecting revenue estimates are:
 - i. the rate of economic growth (GDP);
 - ii. price levels;
 - iii. the unemployment rate; and
 - iv. Interest rates.
- f. A revenue forecast that assumes a growing economy, high employment, low inflation and low interest rates will protect higher revenues and lower expenditures.
- g. Revenue estimates cover several years to accommodate a medium-term framework.
- h. "Political," or overly optimistic, revenue estimates lead to very serious budget problems in the future.
- i. Ensure that expenditure estimates are cash backed.
- j. Included in the revenue and expenditure estimates should be provision which should also be cash backed.

6. GENERALLY RECOGNIZED ACCOUNTING PRACTICE (GRAP)

The key aspects of GRAP implementation to the strategy include capitalization and depreciation requirement and the necessity to budget for profit or loss on asset disposal. The budget process requirements will therefore have to consider the further refinement of these accounting standards and policies.

7. ASSET MANAGEMENT (INFRASTRUCTURE INVESTMENT AND FUNDING)

1. Preserving the investment in existing infrastructure is a key strategy. The Infrastructure Investment Policy must be developed and updated annually to provide for an updating of the impact of various asset renewal strategies, e.g. Asset renewal.
2. The Infrastructure Investment Policy must be constructed to allow for a 'what-if' analysis to illustrate the impact of any variation in renewal levels. It should also use a 90% target of average annual depreciation as the funding requirement of asset renewal, as well as guide to the selection and prioritization of individual capital projects. And it is imperative to ensure that the funding requirement (as calculated) be 100% cash backed. This will ensure that the projected requirements do not outstrip the available resources.
3. MCLM should increase maintenance expenditure to 8% of the carrying cost of PPE and investment property over the next five years. MCLM should also significantly increase capital expenditure on the renewal of assets.

8. MSCOA COMPLIANCE

All municipalities have a chart of accounts. The chart of accounts is a listing of all the accounts used in the general ledger of the municipal entity. This chart is used by the accounting software to aggregate information into the respective municipality's financial statements. MSCOA is the Municipal Standard Chart of Accounts that aims to standardize the chart of accounts of all municipalities and municipal entities within South Africa. The purpose of mSCOA is to accurately record all transactions for more timely financial management which will result in unqualified audit opinions. It will also improve the quality and accessibility of information having the required information tabled for Council decisions.

There are 7 segments of mSCOA and this Policy falls under the Project and Funding Segments as it is responsible for planning the allocation of funds to capital and operational expenditure. MSCOA also has 15 business process and this Policy's compliance to mSCOA regulations and reporting lies in the Budget Planning and Financial Modelling Process. This Policy will be a part of ensuring that the IDP (strategic planning), Budget (operational planning), the Annual Financial Statements (reporting) and performance indicators (KPA's and KPI's) are aligned thus leading to a positive impact on service delivery. Operational planning in terms of long-term financial planning

and modelling will be done in compliance with the mSCOA-regulated framework to ensure that all these 4 processes are aligned.

MCLM should use the cost allocation functionality in MSCOA to ensure that maintenance expenditure is accurately quantified, particularly through recording the cost of labour associated with maintenance.

9. COMMENCEMENT AND APPROVAL

This Policy requires Council approval and will be in effect, after the approval of the Municipal Council as of 1 July 2020.